



Spotlight on Section 179

Start planning today for your business's financial future.

We get it. Things change from year to year, and making the most of your money starts with understanding the tools available to you, including the Section 179 tax deduction.

In this brief guide, we'll explore how the deduction works so you can make the right decisions for your business this year – and be prepared for tax time.



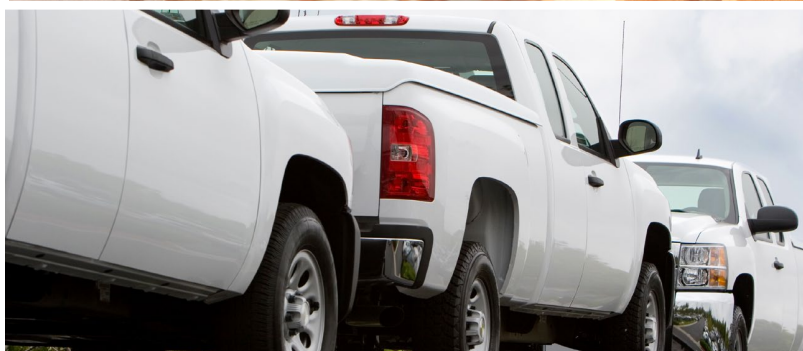
What is Section 179?

Section 179 is a tax deduction that businesses can use to deduct the cost of certain assets as an expense during the year in which they were purchased. All assets must be placed in service by December 31 of the tax year.

How it works

Let's say you've purchased a key piece of equipment for your business for \$200,000. Typically, the value of this equipment depreciates over its lifespan. Normally, you'd divide the cost of the equipment by its number of expected years.

- For financial statement presentation, you can capitalize your asset and depreciate that asset over its expected life.
- For tax purposes, Section 179 allows you to deduct a substantial portion of an asset's cost in the first year, reducing your taxable income and paying less tax as a result.



Taking the deduction.

It's simple to take advantage of the Section 179 tax deduction. There are just two steps:

1. Fill out Part 1 of IRS form 4562.
2. Attach it to your tax return.

Don't let the prospect of more paperwork make you hesitant. If you need help with the form, talk with your tax consultant.

You'll elect to take the Section 179 tax deduction when you file your annual tax return. Running late? Not to worry. The deduction applies whether you're filing on time or with an extension.



The “cans” of Section 179.

Before you make any purchasing decisions, you should know that Section 179-eligible equipment must be “new to you” – so you can’t utilize the deduction for equipment purchased in previous years. If you buy used equipment that is new to your business, however, it is eligible. Below are some other conditions for Section 179.

Eligible property for Section 179

- Automobiles
- Office furniture
- Office equipment
- Computers
- Signs (if movable)
- Machinery and equipment
- Tractors
- Trucks

Qualifying conditions and items

- Acquired for business use
- Tangible property or hard assets such as machines, equipment and furniture
- Single-purpose agricultural or horticultural structures
- Certain storage facilities
- Certain other tangible property used for specified purposes
- Off-the-shelf computer software placed in service during the tax year

The “cant’s” of Section 179.

It’s important to note that several business assets do not qualify for Section 179. We’ve outlined those assets and conditions here.

Ineligible property

- Billboards (if not movable)
- Buildings
- Docks
- Fences
- Land
- Landscaping
- Swimming pools
- Trailers (non-mobile)

Disqualifying conditions and items

- Soft assets
- Property not used in trade or business or used in business 50% or less
- Property acquired by gift, inheritance or trade
- Property purchased from certain related parties
- Property outside of the United States
- Property used by tax-exempt organizations or governmental units
- Property used by foreign persons or entities
- Property held by an estate or trust

A look at the annual monetary limits.

For the tax year 2023, businesses that purchase \$2,890,000 or less in eligible equipment can deduct up to \$1,160,000 of that expense.

Once your Section 179 limit has been reached, bonus depreciation kicks in.

- With bonus depreciation, you can deduct a substantial portion of an asset's cost in the first year instead of depreciating the cost over many years.
- If you've purchased over \$2,890,000 in new-to-you equipment, you can depreciate 80% of the asset in the first year.
- These rules are in effect until January 1, 2024.

Starting in 2023, the first-year bonus depreciation deduction amount decreases as follows:

| Percentage | Year property is placed in service |
|------------|------------------------------------|
| 80% | 2023 |
| 60% | 2024 |
| 40% | 2025 |
| 20% | 2026 |





Calculating your Section 179 impact.

Now that you know the qualifications, what about the calculations? With Section 179, if you purchase \$250,000 in equipment, you can earn \$52,500 in savings – decreasing the total amount you spend to \$197,500.^[i]

| | |
|---|-----------|
| Cost of equipment | \$250,000 |
| Section 179 deduction | \$250,000 |
| Total first-year deduction | \$250,000 |
| Tax savings on equipment purchase | \$52,500 |
| Net cost of equipment after tax savings | \$197,500 |

Should you spend over \$2,890,000 on equipment, you could be eligible for bonus depreciation.^[ii]

| | |
|---|-------------|
| Cost of equipment | \$3,000,000 |
| Section 179 deduction | \$1,050,000 |
| 100% bonus depreciation deduction | \$2,312,000 |
| Regular first-year depreciation | \$78,000 |
| Total first-year deduction | \$2,688,000 |
| Tax savings on equipment purchase | \$564,480 |
| Net cost of equipment after tax savings | \$2,435,520 |

Interested in getting the equipment you need in the current year? Reach out to us to learn more about our financing options.



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